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REPORT

CD NO.

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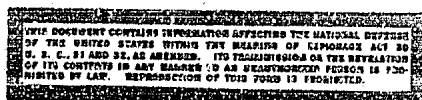
COUNTRY Hungary  
SUBJECT Economic - Finance  
HOW PUBLISHED Irregular newspaper  
WHERE PUBLISHED Budapest  
DATE PUBLISHED 13 Mar 1952  
LANGUAGE Hungarian

DATE OF INFORMATION 1952

DATE DIST. 19 Sep 1952

NO. OF PAGES 3

SUPPLEMENT TO REPORT NO.



THIS IS UNEVALUATED INFORMATION

SOURCE Magyar Kozlony.

REGULATION OF HUNGARIAN CREDIT EXTENSION

The Council of Ministers has issued Decree No 19, dated 13 March 1952, relative to the extension of bank credits. The principal provisions are as follows:

Principles of Credit Extension

Bank credit may be extended to state-owned or state-controlled enterprises (hereinafter enterprises) or cooperatives for production and marketing purposes. Credit extension is the monopoly of financial institutions. Enterprises are not authorized to extend credit to other enterprises or to cooperatives.

Credit is extended for specified purposes for the promotion of planned economic activities in proportion to plan fulfillment. Credit requirements must be planned in advance, and credits extended must be used as earmarked. Credit may be extended only against specific, tangible collateral which may consist of the following: (1) raw materials, semifinished or finished products; (2) in special cases, future products (crops) and stocks to be processed; and (3) uncollected claims arising from the delivery of goods or services. Equipment allocated by the government of unfulfilled obligations are not acceptable as collateral.

The financial institutions acquire a mortgage on the collateral and are authorized to take possession of it or to appoint a receiver in case they discover major shortcomings in the financial management of the borrower. Regulations governing the satisfaction of claims from collateral thus seized will be issued by the Minister of Finance in cooperation with the president of the National Planning Office.

Credits must be repaid when due. The due dates are to be scheduled with the most economical utilization and the maximum rate of turnover of capital in view. The credit must be repaid even prior to the due date if the purpose for

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which the credit was granted is realized earlier, if continuation of the credit is no longer justified, or if the credit is called by the financial institution which granted it. Overdue credit is liquidated by charging the outstanding amount to the account which the debtor maintains with the financial institution.

Credit is short, medium, or long term. Short-term credit is extended for supplementing the permanent circulating capital of the borrower, especially for seasonal requirements. Medium- and long-term credit is extended for purposes of fixed capital investment from sources specified in the national budget. In special cases, medium- or long-term credit may also be extended to cooperatives to provide circulating capital. Details concerning the extension of medium- and long-term credits will be published by the Minister of Finance in cooperation with the president of the National Planning Office.

Interest must be paid on all credits. The rate of interest will be established by the Minister of Finance, with the most economic utilization of capital in view.

Credit is extended only on request. Pending repayment of the full amount of the credit, the financial institution is required to assure itself that the credit is used for the earmarked purpose, that the collateral is secure, and that the borrower's capital turnover is satisfactory. Supervision by the financial institution will be conducted on the basis of the financial statements of the borrower and by on-the-spot investigation. The data to be furnished in the debtors' financial statements will be specified by the financial institution in cooperation with the Central Statistical Office. Credit may be granted only to enterprises and cooperatives with sound financial management and accounting.

Credit Planning

The national credit plan will include the total amount, as well as the sources of short-term credits. The national credit plan is prepared by the Hungarian National Bank (hereinafter, Bank) in its capacity as clearing center. The plan for the extension of medium- and long-term credits is included in the national budget. Detailed regulations concerning credit planning will be issued by the Minister of Finance.

The total amount of credits established in the national credit plan is a maximum, and the Minister of Finance, the Bank and other financial institutions, the ministers who supervise the various enterprises and cooperatives, the local councils, and other authorities are jointly and severally responsible for the observance of this upper limit within their respective jurisdiction.

Credit Discipline

The borrower violates credit discipline by the following acts: (1) by failing to furnish accurate facts in the credit application, or by failing to state the true purpose of the credit; (2) by removing, jeopardizing, or diminishing the value of the collateral; (3) by using the credit for a purpose other than that earmarked; (4) by obstructing the financial institution in seizing the collateral; (5) by failing to furnish the financial institution with true financial data during the period the credit is outstanding; (6) by hindering the financial institution in conducting investigations in connection with the outstanding credit; (7) by hindering the receiver appointed by the financial institution in the exercise of his duties; (8) by failing to repay the credit when due, or by neglecting to procure the means for repayment; (9) by delaying repayment when due with unfounded excuses; and (10) by the availing of credit contrary to the provisions of the present decrees. The financial institution violates credit discipline by extending credit in circumvention of the present decrees.

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Violations enumerated under 1-3 in the foregoing paragraph are punishable by imprisonment for a term not exceeding 2 years. Violations enumerated under 4-10, as well as violation by financial institutions, are subject to a fine not exceeding 5,000 forints. Proceedings against the borrower will be instituted only on the basis of the report of the financial institution. In case the violation is of minor extent, the financial institution may forego reporting it and may assess a fine on the borrower not exceeding 3,000 forints.

Besides the foregoing penalties, the financial institutions are also authorized, in case of violation of the present decree, to (1) increase the rate of interest; (2) assess a special fine on the debtor; (3) restrict credit extension or call the outstanding loan; (4) attach the debtor's receipts; and (5) appoint a receiver for the debtor. The receiver is authorized to inspect all books and documents of the debtor; to request the workers of the debtor to give information concerning operations (the furnishing of information is mandatory); and to participate in the meetings of the management. All payments made by the debtor, as well as credit applications, require the counter-signature of the receiver.

#### Miscellaneous Provisions

In special cases, credit may also be extended for consumption purposes, as well as to private individuals and independent producers, by financial institutions designated by the Minister of Finance. Medium- and long-term credit to private individuals may be extended exclusively for home-building purposes.

The present decree will go into effect on the date it is published by the Minister of Finance. Detailed regulations concerning the extension of credit, with due consideration to the special requirements of the various branches of the national economy, will be prepared by the Minister of Finance in cooperation with other ministers concerned.

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